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INFO RUEHBJ/AMEMBASSY BEIJING 5629
RUEHUL/AMEMBASSY SEOUL 1622
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SENSITIVE
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SUBJECT: JAPAN INSURANCE: POTENTIAL BUYERS UNSURE OF AIG'S
WORTH

Sensitive But Unclassified. Contains Proprietary Information.

Summary

1. (SBU) AIG Japan's insurance operations are potentially an attractive acquisition target, given media reports that AIG Japan's FY2007 direct premium revenue was about \$24 billion. Japanese domestic insurers are showing interest, but questions remain about AIG subsidiaries' balance sheets, solvency margins, the details of the U.S. bailout, and how badly AIG's brand has been damaged. Industry expects to learn more about AIG's plans during an October 3 conference call for analysts and investors. At least one foreign insurer has found it necessary to remind the public it is not part of AIG. End summary.

AIG's Japan Operations Impressive...

2. (SBU) American International Group (AIG) has seven life, non-life, and reinsurance companies in Japan -- Alico Japan, AIG Star Life, AIG Edison Life, AIU Insurance, American Home Direct, JI Accident and Fire Insurance, and Transatlantic Reinsurance Company. AIG also has three investment management companies in Japan, one securities house, and 13 related companies, including consulting and worker dispatching firms.

3. (SBU) AIG's Japan operations employ about 26,000 of its 116,000 worldwide direct employees and its life insurance operations constitute about one-quarter of its global insurance business. With more than 10 million policyholders, its Japan life and non-life insurance operations generated about \$24 billion (at 105 yen/dollar) in direct premium income in FY2007, according to the Japanese business press.

...But Questions Remain About Financial Health and Value

4. (SBU) Local media have characterized AIG's insurance operations in Japan as healthy, with good revenue and stable management. Due to insurance regulations, each of AIG's insurance subsidiaries maintains a capital reserve for its own products.

5. (SBU) AIG has announced it will clarify the company's

"direction" on potential sales during an October 3 conference call for analysts and investors. Domestic insurers are showing interest in acquiring AIG subsidiaries, should they be put on the auction block. However, that interest is tempered by the unknowns surrounding the bailout. Some subsidiaries carry AIG stock on their balance sheets, for example, which has led to press speculation about how the companies' values may have changed with AIG's stock tumble. Those concerns were heightened September 30 when Alico Japan announced it had received 90.7 billion yen (about \$870 million) from its U.S. parent, prompting questions about Alico's solvency margin ratio.

¶6. (SBU) AIG's business is being hurt in other ways as well. Japanese consumers put an extremely high premium on safety and security, which means AIG's bailout has damaged AIG's brand. To reassure consumers, AIG has taken out full-page advertisements in Japanese newspapers, but as one company executive told an Embassy official, "No one wants to do business with us right now." Media report some distributors, such as Resona Bank, have decided to stop recommending AIG products.

¶7. (SBU) Moreover, significant questions remain about the details of the bailout, both for potential buyers and Japan's regulators. One company executive shared that the Financial Services Agency (FSA) has been calling AIG repeatedly with questions about the company's plans, but, lacking direction from New York, the company has no answers for the regulators.

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Industry Rumor Mill

¶8. (SBU) Executives of international and domestic insurers in Japan were tracing out possible industry acquisitions within hours of the September 16 announcement of the New York Fed's \$85 billion line of credit to AIG. No offers have surfaced in public, but some in the industry have floated the idea AIG Edison or AIG Star Life might be offered for sale. Both companies bought out Japanese firms that went bankrupt when Japan's insurance industry fell on hard times, and they are seen as less integrated into the rest of AIG Japan's complex legal structure than a subsidiary like Alico. Other insurance executives suggested to Emboffs that the sheer size of AIG's life insurance operations make a buyout from a domestic insurer unlikely. They point to AIG's non-life businesses and recent international acquisitions from Japanese non-life insurers as a more promising pairing.

Damage Not Limited to AIG

¶9. (SBU) While the Fed's \$85 billion line of credit appears to have kept pressure off the company and possible suitors to rush into deals, AIG's otherwise healthy Japan business has been damaged -- along with that of other U.S. insurers. Aflac even saw a need to publish its own full-page advertisements proclaiming its financial health and subtly reminding the public it is not part of AIG.

SCHIEFFER